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FM AMCONSUL HONG KONG
TO RUCPDOG/USDOC WASHDC PRIORITY
RUEHC/SECSTATE WASHDC PRIORITY 0551
INFO RUEHOO/CHINA POSTS COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 HONG KONG 000465

SIPDIS

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STATE FOR EB/TPP/MTA/IPC/FELSING
STATE FOR EB/IPE
STATE FOR EAP/CM
STATE FOR INR/EAP
NSC FOR DWILDER, KTONG
DEPT PASS USTR FOR SMCCOY, ACELICO, RBAE
DEPT PASS TO USPTO FOR TBROWNING

E.O. 12958: N/A

TAGS: [CH](#) [ECON](#) [ETRD](#) [HK](#) [KIPR](#)

SUBJECT: HONG KONG CUSTOMS INCREASES COUNTERFEIT RAIDS FOR
CHINESE NEW YEAR

11. (U) Summary: Hong Kong Customs and Excise (CED) officers recently broke up a multi-million dollar counterfeit pharmaceutical ring and a separate triad syndicate that sold pirated optical disks. In the first case from late January, CED officers arrested the 37-year old leader of the counterfeit drug smuggling operation and seized over 470,000 fake tablets worth \$HK19 million (approx. US\$2.5 million). In the optical disk case, officers raided 20 sites across Hong Kong and arrested 14 people on organized crime and copyright violations charges. These large-scale raids coincide with a noticeable increase in Customs enforcement and education activity in advance of the Chinese New Year celebrations, a time when residents and tourists visit street fairs and temporary markets that previously sold counterfeit goods. In the past two months, CED officials have arrested wholesale operators for selling fake goods, increased patrols at street markets, and warned part-time retailers who open temporary stalls at New Year's markets of the penalties for selling infringing products. END SUMMARY.

12. (U) On January 26 2007, CED officers stopped an international syndicate of counterfeit drug smugglers, who targeted the American, European, Indian, and Australian markets. Based on intelligence from the pharmaceutical industry, CED raided storage facilities across Hong Kong and seized 470,000 tablets of fake drugs with a street value of HK\$19 million (approx. US\$2.5 million). The drugs were being marketed overseas to treat heart disease, avian influenza, impotence and weight gain. Customs officials claim that the ring sent spam emails to customers and offered drugs at slightly under retail prices to convince buyers the medications were genuine. Many of the drugs found had been packed for export with mailing labels already addressed. Hong Kong officials arrested the 37-year old head of the smuggling operation and plans more arrests in the near future. CED stated that they would share information with foreign counterparts to facilitate investigations overseas. CED publicly noted that these counterfeit pharmaceuticals were primarily placebos with no active ingredients, but were extremely dangerous to people who depend on them to treat chronic illnesses.

13. (U) On February 14 and 15, CED confiscated over 120,000 pirated optical disks, a private car, a cross-border (Hong Kong-mainland) container truck, cash, and Hong Kong Jockey Club (HKJC) cash vouchers with a total estimated value of HK\$3.9 million (US\$500,000). The operation included raids of 20 different locations, including storage areas and retail

outlets, and the arrest of 14 people. CED stated the smuggling syndicate was controlled by the Triads, represented "the largest organized crime group engaged in pirated optical disks in Hong Kong," and used the Jockey Club and local restaurants for money laundering of illicit profits. Press reports estimate that the group made more than HK\$130 million (approx. \$16.7 million) over a seven year period through smuggling, distribution, and money laundering. CED charged all 14 with "conspiring to sell infringing copies of copyright works" under the Copyright and Crimes Ordinances, as well as "dealing with property known or believed to represent proceeds of indictable offenses" under the Organized and Serious Crimes Ordinance. The use of organized crime laws is important as it allows CED to impound the property of those arrested.

¶4. (U) The above cases coincide with an increase in law enforcement activity against IPR violations in Hong Kong. Starting in December, CED stepped up patrols of Hong Kong's night markets and warehouses to stop the sale of smuggled counterfeit goods. In one pre-Christmas raid of three warehouses, Customs officials seized HK\$2.2 million (approx. US\$300,000) worth of clothing, luggage, sneakers and watches and another HK\$8.2 million (US\$1.1 million) worth of optical disks. Customs officials note that sellers rarely advertise their goods by displaying them in public, but approach customers directly with pictures of the products they sell in storage facilities behind markets or retail shops. Officials announced they also seized credit card payment machines in one of these facilities, noting that some counterfeit retailers have started to urge clients to pay with credit cards that enables them to sell more goods as well as steal credit card data. In February, CED officials raided warehouses containing counterfeit paraphernalia of Disney and

HONG KONG 00000465 002 OF 002

Japanese cartoon characters. CED anti-counterfeiting officials have stated publicly that they have stepped up patrols of Hong Kong's annual Chinese New Year markets and warned retailers that they will be prosecuted if they are caught selling fake goods. It appears the high publicity surrounding these raids was designed to give retailers and consumers warning of the dangers of dealing in counterfeit goods.
SAKAUE